



Navigating the Perfect Storm

How to achieve your front-loaded savings and realise future objectives

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Over the next few years, councils have been handed the task of delivering Noughties legislation and customer expectations with Nineties budgets. Alone, these factors would be difficult enough to deal with. In combination, they are leading to many sleepless nights for local authority officers who need to: reduce budgets quickly to cope with a front-loaded settlement; implement a wide transformation programme to drive out and sustain savings – potentially moving to a new operating model; whilst maintaining services to increasing numbers of customers whose expectations have not reduced in line with the budget. And that's not to mention getting to grips with major Government policy objectives such as the Big Society and Open Public Services.

This is a 'perfect storm' of events for Local Government – and the effects will endure. To navigate through these conditions requires going beyond the traditional labels associated with budget control – such as efficiency, economy, and income generation – and into the fundamental essence of how a council should and does operate. **The word navigate implies that we understand where we are going relative to where we are now**, and in this paper we argue that Local Authorities must make a decision about what kind of Local Authority they will need to become in order to manage these competing agendas.

To manage demand for services, and make sustainable savings, councils need to focus on finding the cure rather than treating the symptoms. What we mean by this is that councils, and their directorates, must understand its true cost drivers and fundamentally change how its services operate and how customers interact with them to ensure that the quality of local services can be sustained. **Journeying towards a 'right-sized', future-proofed and scalable operation now means that councils will be able to make the most of emerging opportunities.** Maintaining core capacity and community links, that enable success, will be critical to success.

At Capita, we believe that the current situation represents a challenging tour for all of us working in and with Local Government. Collectively, we have the opportunity to work together in new ways to achieve new objectives and meet local needs. Local Government has historically demonstrated that it can meet the challenges of spending reductions and transformation. However, what is different now is the scale and complexity – the quick wins have been taken and as a result the traditional model of Local Government delivery is endangered.

As a result of this choice, we expect to see councils taking different routes as they achieve their spending reductions; **in five**

years, councils will be in very different places. At the risk of generalising, we believe that three models of council can help illustrate this landscape and help you make the right choice. Our discussion about these will highlight the important landmarks and identify potential routes through to a new future operating model. In reality, your council will likely end up between these examples, blending aspects of each as you tread your own path. **We intend our models to stimulate the debate about what local government looks like in the future and help leaders to think about which direction is right for their organisation now.**

The first type of council is one that wants to retain direct control of public services. We have chosen to call this the 'productive' authority. This council may have some contracted-out services, but will have primarily invested their efforts into streamlining in-house services so that: they understand the customers they serve; their processes and delivery times are efficient; and their unit costs of delivery are low. Standards are rigorously controlled and managers reduce their budgets year-on-year through an almost obsessive concern with unit cost. This council's specialism is delivery, and its strengths are cost reduction, continuous improvement, performance management, income generation, supply chain management, and category management. Though it is not able to offer the same range of services as other models, what it does offer is guaranteed and can be quickly flexed to meet the needs of citizens.

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The second type of council wishes to retain control over services' day-to-day decision-making, but also takes advantage of the benefits of sharing some of that responsibility with other partners. This is the 'sharing' authority. Its specialism is collaboration. Its strengths are shared delivery and management of services, organisational design and joint working across traditional administrative boundaries.

By working with like-minded authorities and other local agencies to share services, it can keep some control of delivery within a wide governance structure. This type of council will also be actively considering shared delivery and shared management of services at all levels with bodies from all sectors, as well as exploring the potential for effective outsourcing of services and alternative delivery models. Its officers and cabinet are outward looking, patient and clear-eyed collaborators, and are focused on outcomes rather than outputs - they manage via contracts rather than direct control. Effective scrutiny manages risk, but demands that opportunities are realised rather than seen as 'too difficult'.

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The final type of council is happy to delegate the delivery of public services to other organisations and to the community, and focuses only on guaranteeing that local outcomes are delivered. This is the 'enabling' authority, which specialises in strategic commissioning and utilises the general public, private and third sectors as a day-to-day delivery arm. It focuses on rigorously understanding the needs of its customers and the strategic vision for its neighbourhoods and then selects the right provider at the right cost to deliver the service. It will also make the most of the Big Society, relying on individual citizens and community organisations to take responsibility and ownership of the outcomes it sets.

Being a slimmer organisation than other councils, this strategic hub tightly manages providers' delivery through business intelligence and performance management, but is less controlling of how this happens, accepting the risk that this entails. As a

result, competition between suppliers drives down contract costs, and the council offers a wide range of services to its customers. Councillors act as champions for the outcomes delivered to their communities and officers are social entrepreneurs working alongside citizens outside the council to ensure services are provided. Scrutiny addresses community issues, not service issues.

So, which type of authority do you want your council to be?

The trait that, above all others, will determine the answer to this question is your appetite for risk. Every authority has the potential to be a success story in customer-driven cost reduction, Big Society, shared services or strategic commissioning; however, each of these entail a different amount of risk.

Councils that are more comfortable with the scale of change, that innovative models of delivery entail, will be able to unleash a wide range of new services at a much lower cost. But some may fail the first time as new things are tried. Councils that are more comfortable with the reduced risk of controlling delivery in-house will combine rigorous standards of service with reduced failure rates and tightly managed unit costs. However, the budget probably won't stretch to doing everything they would like to in this instance. Ultimately, councils know what works best in their local area politically, strategically and operationally and it is this knowledge that will define the choices that can be made for what the future will look like.

Once you have decided on where you want to get to, we'd like you to think about three further questions.

First, are you moving in the right direction to get there – and does policy drive this movement, or inertia?

Second, is your environment right for the model you have chosen – does it, for example, provide the option of sharing or devolving delivery?

And finally, what do you need to do to make sure you take advantage of the opportunities that are right for you?

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What Next?

The answer to these questions lies in effective leadership and strategy. Leaders and Cabinets, alongside their senior officers, need to commit to a vision and inspire their organisation with it; Chief Executives and Directors need to align their strategy to this vision and reduce peripheral services; officers need to be empowered to deliver the strategy; and Members need to have the political will to support this vision, and provide the link with customers, partners and communities to ensure it is right.

This will not be easy. It may even be harder than the spending reduction councils have been worrying about. But, if successful, your organisation will realise its savings and be ready for recovery. If another boom comes along, you'll be ready to thrive whilst those that have not made their choices as clearly may struggle. If it never arrives, your organisation will be perfectly adapted to the new environment, and will still succeed in the face of adversity.

But the first step to this success is a simple choice: what type of local authority do you want to be in five years?

Capita's Role

We are talking to a number of authorities exploring how an organisation like Capita could contribute towards achieving their vision. We know the solutions need to be different from before and unique to each council so the need for engagement and dialogue has never been greater. Capita can bring a scale of operation and capability (offering both Advisory and BPO across all council directorates) that can be leveraged and shaped to support your council's challenges.

We would like to understand your council's journey and would welcome the opportunity to facilitate your thinking about the journey you are about to embark upon. Equally we would like to hear your reactions to this paper – your challenge to us .

We want to play a leading role in working alongside authorities to shape and enable the next generation of Local Government.

Contact us

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A full version of this paper is available by emailing us at consulting@capita.co.uk.